

## THE BERKSHIRE GAS COMPANY

Testimony of Michael J. Marrone

D.T.E. 00-30

D.T.E. 00-36

Q. Please state your full name, business address and the position you hold at The Berkshire Gas Company.

A. My name is Michael J. Marrone, and my business address is 115 Cheshire Road, Pittsfield, Massachusetts. I am Senior Vice President, Treasurer and Chief Financial Officer, and Assistant Clerk of the Company. I joined the Company as Treasurer in June, 1983.

Q. Please describe your educational background and business experience prior to joining The Berkshire Gas Company.

A. I received a Bachelor's Degree from C.W. Post College in 1964 and a Masters Degree from Long Island University in 1968. Prior to joining The Berkshire Gas Company, I worked as Controller of the New Haven Water Company from September, 1979 to June, 1983 after being associated with two investor-owned national utility companies and an international public accounting firm for fourteen years. I serve on the Board of Directors of the Financial and Administrative Division of the New England Gas Association; The Taxation and Finance Committees of the American Gas Association; The Financial Executive Institute, as well as being Director of the Springfield Chapter; and I am a member of the national Committee on Government Liaison. I am also a member of the

New England Regional Utility Group. I am vice chair of the Berkshire Housing Development Corporation as well as chair of the pension and investment committee. I am a founder and Director of "QUEST," a non-profit educational corporation whose goal is to bring internet service to every school in Berkshire County. Finally, I also serve as a Director of the Chamber of Commerce of the Berkshires.

Q. Are you familiar with the filings made by the Company in these proceedings?

A. Yes, I am familiar with the petitions filed by the Company with the Department with respect to the interim financing of the recently completed liquefied natural gas ("LNG") facility and the proposal for interim cost recovery of the facility as well as with the statements and requests contained therein, and with the transactions which are the subject of the filings.

Q. Please describe the purpose and intended effect of the Company's petition pursuant to G.L. c. 164, §14.

A. The Company's petition in docket DTE 00-36 seeks authority for the Company to issue and sell a note on a negotiated basis in the principal amount of up to \$5,600,000, with a 3-year maturity and a variable rate of interest based upon a specified spread over so-called LIBOR rates or the lender's prime rate (the "Note"). The Company's Board of Directors authorized application to the Department on March 30, 2000 (See Exhibit A).

Q. You have stated that the Company plans to issue the Note as part of an interim financing of the LNG facility. Please explain what you mean by such term.

A. The Company has recently completed the construction of a new LNG facility that was necessary for pressure regulation purposes. The facility was subject to comprehensive review by the Energy Facilities Siting Board and the Department. The total cost of construction for the facility is approximately \$5,530,000.

The Company has been exploring a number of financing plans for such facility. The Company's goal has been to secure a least-cost financing, but also to be mindful of other, related concerns such as the manner of cost recovery and accounting considerations. The Company and its financial advisor originally believed that an off-balance sheet lease structure, sometimes referred to as a "synthetic lease" might be the least-cost alternative. A number of informal proposals were solicited with respect to such a financing, with KeyBank offering the most attractive terms. However, continuing discussions with our accountants suggested that the only potential means to secure such a financing would involve an unacceptable loss of control of a necessary facility for reliability purposes. Accordingly, it became necessary to further evaluate financing alternatives.

I continued in discussions with our financial consultant on this matter. We reviewed and considered a variety of financing alternatives and the implications of our proposal under a number of factors including regulatory requirements. The Company determined that an interim financing plan pursuant to an interim term note with a variable rate of interest

was the alternative that afforded the Company the best overall balance. Interim financing costs would be low in that the Company could benefit from lower shorter-term interest rates and the relatively limited amortization of principal. Further, given the relatively simple nature of the proposed Note, the Company expects that there will be low transaction costs associated with the proposed issuance and sale. Importantly, the Company believes that it has secured an attractive interest rate particularly in the interim term. The Company believes that traditional debt financings would involve more burdensome terms and more substantial costs. Importantly, the Company anticipates that long-term financing costs may be reduced after the merger with Energy East Corporation. The Company's proposal ensures that our customers will secure the benefits of reduced borrowing costs resulting from such merger.

Q. Would you please enumerate the advantages of this financing?

A. As described by Mr. Puig, at the present time, interest rates for longer-term financial instrument are at particularly high levels given the recent policy of the Federal Reserve. Also, because this is a relatively simple transaction, there will be minimal costs incurred by the Company for this issuance. As described in greater detail by Mr. Puig, the rates and transaction costs of going to the long-term debt market with such a small financing were not attractive. Further, a bank transaction typically involves more favorable terms, such as not requiring "make whole" provisions. Finally, this structure was consistent and easily coordinated with the Company's interim cost recovery plan described in docket DTE 00-30.

Q. What is the anticipated date of closing for this financing?

A. The Company anticipates that the financing will occur as soon as approval is granted from the Department.

Q. Which financial institution has the Company chosen for placement of the Note?

A. KeyBank, N.A. was chosen on the basis of its cost-effectiveness and its willingness to consider a variety of alternatives with the Company in addition to its ability to and interest in purchasing the new Note. KeyBank had offered attractive terms for the synthetic lease options considered based upon a comprehensive review of the Company's credit quality.

Q. Would you describe in more detail the specifics of the proposed financing?

A. Yes. We are seeking the Department's permission to issue the Note with KeyBank with terms as described below. The Note will be secured by a mortgage on the LNG facility, have a face value of approximately \$5,600,000, and a variable interest rate based upon various LIBOR rates or KeyBank's prime rate. Also, the loan may be prepaid at any time without penalty.

Q. Have you prepared financial and informational schedules intended to support the Company's application and to describe the effects of its plan upon the Company's capital structure?

A. Yes, I have. They are attached to this testimony and are marked Schedules inclusive.

Q. Please describe Schedule.

A. Schedule 1 contains a description and summary of terms of the proposed note.

Q. Please describe Schedule 2.

A. Schedule 2 is the Company's comparative balance sheet and statement of income and retained earnings at December 31, 1999 and 1998.

Q. Please describe Schedule 3.

A. Schedule 3 shows that the Company had \$46,065,000 worth of uncapitalized additions available at December 31, 1999 which are more than adequate to support the financing.

Q. Have you conducted any further tests to ascertain the adequacy of the Company's property to support the proposed financing?

A. Yes. Schedule 4 is a comparison of net utility plant to securities issued and proposed for the Company to be outstanding on a pro-forma basis at December 31, 1999.

Q. Please comment on Schedule 5, entitled Statement of Capitalization at December 31, 1999 with Pro-Forma Adjustment.

A. Schedule 5 shows the capitalization of the Company at December 31, 1999 with a pro-forma adjustment to include the proposed note for \$5,530,000. Schedule 5 also shows the pro-forma debt and equity ratios. This schedule shows the debt/equity ratio to be 57.5% and 42.5% respectively.

Q. Is there any other approval or authorization (other than the approval of the Department sought hereby and corporate authorization by the Company's Board of Directors already described in Exhibit A) required with respect to the issuance of the note?

A. There are no other approvals or authorizations necessary for the issuance of the Note.

Q. Does this complete your prepared testimony?

A. Yes, it does, but I will be happy to answer any additional questions you or the Department may have.

## SCHEDULE 1

## THE BERKSHIRE GAS COMPANY

\$5,600,000 Note

Due

SUMMARY OF TERMS

Face Value \$5,600,000 to finance the recently completed LNG facility

Interest Rate Variable with the Company able to elect LIBOR rates or prime rates for periods of up to six months

Term Three years

Payment and Delivery Accrued interest on the loan paid monthly. Principal authorized at \$75,000 per quarter.

Prepayment The Note may be prepaid at any time without penalty.

Security The Note will be secured by a mortgage on the LNG facility.